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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000457

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EB/IFD FOR FCHISHOLM
NSC FOR SENIOR AFRICA DIRECTOR C. COURVELLE, D. TEITELBAUM
TREASURY FOR OREN WYCHE-SHAW, STATE PASS USAID FOR MARJORIE
COPSON
ALL AFRICAN DIPLOMATIC POSTS

E.O. 12958: DECL: 12/31/2009

TAGS: [ETRD](#) [PGOV](#) [Z1](#) [ECON](#) [EINV](#)

SUBJECT: BUSINESSMEN WANT RAPID POST-ELECTION CHANGES

Classified By: Ambassador Christopher Dell for reasons 1.4 b/d

Summary

[11.](#) (C) Summary: Participants at the Embassy's March 17 business roundtable agreed that Reserve Bank (RBZ) Governor Gideon Gono had further damaged the economy since taking office on December 1, 2003 with his emphasis on state control of the economy. They disagreed whether more market-oriented policies would prevail after the March 31 parliamentary elections. Some participants said the GOZ would likely devalue the zimdollar, which could help business conditions. However, others noted that without changes to the underlying policies, a devaluation would likely spur further depreciation in the zimdollar and a corresponding spike in inflation. Most participants expressed skepticism that President Mugabe would curb economic intervention, undertake an objective audit of land reform and replace under-performing farmers, or appoint competent ministers to his cabinet. They encouraged the U.S. and other donors to use their leverage to press for more liberal economic policies. End Summary.

Participants

[12.](#) (C) The roundtable, moderated by the Charge d'Affaires, brought together participants from the economy's main sectors. Agriculture: Cargill Managing Director John Battershell, Anglo-American CEO James Maphosa and independent farmer Wilson Nyabonda. Mining: Zimplats CEO Greg Sebborn and Maphosa. Manufacturing: Colgate-Palmolive MD Davis Kenyama. Tourism: Rainbow Tourism CEO Chipo Mtasa. Financial Services: Zimbabwe Allied Banking Group (ZABG) Finance/Administration Director Pricilla Mutembwa.

Some Still Hope for Better Post-Election Conditions

[13.](#) (C) None of the participants were unabashedly optimistic about future GOZ economic policy. However, the local heads of Rainbow Tourism, Cargill, Zimplatts along with the independent farmer expressed guarded hope that Mugabe would appoint a more pragmatic post-election cabinet. Several of the businesspeople also suggested Mugabe would permit a significant devaluation that could help improve the competitiveness of Zimbabwe's exports.

[14.](#) (C) Nyabonda, currently Zimbabwe's largest tobacco farmer, said he and other farmers were lobbying for a special exchange rate of Z\$10,000-12,000:US\$ vice the official rate of Z\$6,000:US\$. (N.B. Nyabonda purchased his farm in the mid-90's, before the start of fast-track land reform and the seizure of white-owned farms.) Nyabonda said the tobacco selling-season would open April 5. If the GOZ had not instituted a general devaluation or set up a special rate for farmers shortly after the election, he predicted that tobacco farmers would begin smuggling their tobacco out of the country for sale, rather than sell it at a loss to the state.

[15.](#) (C) Nyabonda also said he expected the GOZ to undertake an audit of farms resettled under the GOZ's fast-track land reform and replace under-performing beneficiaries with other aspiring farmers. He argued that the division of large formerly white-owned farms into many smaller units was not working) "only one of ten farms has irrigation and power") and that the GOZ would have to find a way to turn these smaller farms into "sustainable units."

While Others Have Given Up Until Mugabe Goes

[16.](#) (C) By contrast, the Anglo-American, Colgate-Palmolive and ZABG representatives were skeptical that any cabinet under

Mugabe would enact more reasonable exchange rate or land reform policies. They maintained that politicians from the ruling ZANU-PF who enriched themselves by accessing foreign exchange at the official rate or handpicking the best farms were incapable of advocating a floating exchange rate or overseeing an independent audit of land reform.

17. (C) Anglo-American CEO Maphosa said the business community "overestimated the success of (RBZ Governor) Gono" while Kenyama and others criticized the central banker for bolstering government control of the economy. There was no general agreement on whether Gono would personally favor market solutions but all agreed that Mugabe would have fired him, as he had former Finance Minister Simba Makoni, had he proposed more liberal policies. In that regard, Rainbow Tourism CEO Mtasa warned that a devaluation, absent more liberal underlying economic policies, would only cause further zimdollar depreciation on the parallel market and would likely cause 2005 inflation to spiral out of control.

18. (C) Maphosa, Kenyama and Zimplatts CEO Sebborn predicted serious post-election shortages of food and fuel as well other imported commodities. They said the government would have to appeal for international food assistance after the election. They also confirmed that many in the GOZ believed that if the March 31 elections were given a clean bill of health by South Africa and the Southern African Development Community (SADC), the west would bless them as well, leading to renewed support from the IMF and other IFIs.

19. (C) The Charge said the U.S. would respond positively to an appeal for food aid; we did not use food as a political tool, but that renewed IMF lending was a distant prospect at best and would depend on a resolution of Zimbabwe's political crisis. Several participants said the donor community should use its leverage to press for more market friendly policies. In that regard, Sebborn noted that his company was prepared to invest US\$2 billion but had inexplicably yet to receive a green light from the GOZ. (N.B., by comparison, the country exported only US\$1.7 billion last year and attracted less than US\$10 million in foreign direct investment.)

Comment

10. (C) RBZ Governor Gono's honeymoon is over. Industrialists are increasingly demanding that Gono implement the market-oriented policies the central banker has frequently praised and promised. The GOZ, with or without Gono, will clearly have to move quickly following the elections on a variety of economic fronts: food insecurity, fuel shortages, and the exchange rate being the most prominent. It remains to be seen whether the GOZ under Mugabe will be capable of embracing more liberal economic policies or will choose to rely on continued state control. The latter would be a recipe for further rapid economic deterioration.
Dell